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UNCLAS KATHMANDU 002403

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SUBJECT: GOVERNMENT'S REVENUE COLLECTION POOR

REF: KATHMANDU 2308

KATHMANDU 1537

POOR GROWTH IN GOVERNMENT'S REVENUE COLLECTION

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1. (SBU) THE GOVERNMENT OF NEPAL'S RECENT INCOME AND EXPENDITURE FIGURES, RELEASED BY NEPAL'S MINISTRY OF FINANCE (MOF) ON OCTOBER 26, SHOW THAT TOTAL REVENUE COLLECTION RECORDED A GROWTH OF ONLY 0.6 PERCENT IN THE FIRST QUARTER OF FY 2005/06. (NOTE: FIRST QUARTER IS FROM JULY 16 TO OCTOBER 15. END NOTE.) MEDIA REPORTS DESCRIBED THE GROWTH RATE AS ONE OF THE LOWEST IN RECENT YEARS. BRIHASPATI RAJ PANT, MOF REVENUE DIVISION UNDER SECRETARY, TOLD EMBOFF THAT REVENUE COLLECTED DURING THIS

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PERIOD WAS BELOW TARGET, BUT IT WOULD BE PREMATURE TO CONCLUDE THAT THIS TREND WOULD CONTINUE THROUGHOUT THE YEAR. PANT ADDED THAT ACTUAL COLLECTION FIGURES COULD NOT BE ASCERTAINED BECAUSE DIFFERENT COLLECTION CENTERS COULD NOT SUBMIT REVENUE STATEMENTS IN TIME DUE TO LENGTHY NEPALI HOLIDAYS COINCIDING WITH THE DEADLINE FOR SUBMISSION OF REVENUE STATEMENTS. (NOTE: IN THE GOVERNMENT'S BUDGET FOR FY 2005/06, THE REVENUE COLLECTION TARGET WAS SET AT USD 1.15 BILLION, OUT OF WHICH, ACCORDING TO THE MOF, THE TOTAL REVENUE COLLECTED DURING THIS PERIOD WAS USD 177 MILLION, ONLY 15.5 PERCENT OF THE ANNUAL TARGET. END NOTE.)

DEVELOPMENT EXPENDITURES DECLINED, OTHERS INCREASED

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2. (U) THE FIGURES RELEASED BY THE MOF SHOW A DECREASE IN THE GOVERNMENT'S DEVELOPMENT EXPENDITURES, WHILE ADMINISTRATIVE, SECURITY AND OTHER EXPENSES HAVE INCREASED DURING THE FIRST QUARTER. SPENDING ON DEVELOPMENT ACTIVITIES DURING THE FIRST QUARTER OF FY 2005/06 WAS USD 6.2 MILLION, WHICH IS 43 PERCENT LESS THAN THE USD 11.0 MILLION SPENT DURING THE SAME PERIOD IN THE PREVIOUS FISCAL YEAR. IN CONTRAST, THE GOVERNMENT'S RECURRENT EXPENDITURES, INCLUDING ADMINISTRATIVE AND SECURITY EXPENDITURES, AND PAYMENTS OF INTEREST ON LOANS, GREW BY 6.2 PERCENT TO USD 169.44 MILLION, COMPARED TO USD 155.56 MILLION LAST YEAR. IN ADDITION TO REGULAR EXPENSES, THE MOF INVESTED USD 17.5 MILLION IN SEPTEMBER TO BAIL OUT NEPAL OIL CORPORATION (NOC) FROM A FINANCIAL CRISIS (REF A). ACCORDING TO THE MOF FIGURES, THE CUMULATIVE TREASURY DEFICIT AS OF OCTOBER 15 HAD REACHED USD 31.15 MILLION. THE GOVERNMENT HAD A SURPLUS FUND OF USD 21.55 MILLION AT THE END OF THE SAME PERIOD LAST YEAR.

COMMENT

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3. (SBU) ALTHOUGH POOR REVENUE COLLECTION IN THE FIRST QUARTER OF FY 2005/06 HAS RAISED CONCERN OVER THE GOVERNMENT'S ABILITY TO MEET ITS REVENUE TARGETS, NEPAL COULD STILL DO SO. DUE TO IMPROVED ECONOMIC ACTIVITIES, BETTER RESULTS ARE POSSIBLE IN THE MONTHS TO COME. SINCE THE CURRENT MAOIST CEASE-FIRE WAS ANNOUNCED, TOURIST ARRIVALS AND INTERNAL MOVEMENT OF PEOPLE HAVE BOTH INCREASED, AND PRODUCTION AND CONSUMPTION OF GOODS AND SERVICES HAVE ALSO RISEN. AN EXTENSION OF THE MAOIST UNILATERAL CEASE-FIRE IS PIVOTAL FOR THE CURRENT UPBEAT ECONOMIC MOOD TO CONTINUE. HOWEVER, IF THE SECURITY SITUATION DETERIORATES, NEPAL WILL FACE A BLEAK ECONOMIC FUTURE.

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